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BY E-MAIL

Dear Shazia

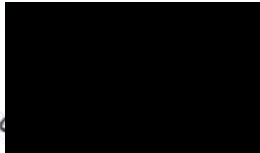
Consultation on the FRC statutory guidance under the Local Audit and Accountability Act 2014 in response to the Redmond review 2019 - Consultation response

We are pleased to have the opportunity to comment on the proposed revisions to the FRC's *Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit*.

Our responses to each consultation question are set out below.

If you wish to discuss any of the points further, please do not hesitate to contact me.

Yours sincerely



Lisa Blake
Partner / Head of Public Sector Assurance
For and on behalf of BDO LLP



Question 1

Do you agree with the overall approach at para 4.1 that the RSB's requirements for approving KAPs need to be rigorous but avoid being overly complicated or restrictive on allowing access to the local audit market?

We agree that the process for approving KAPs should be robust. However, we see no reason why it should be more difficult to attain KAP status for signing off local audits compared to the requirements for large corporate audits, particularly if the individuals have appropriate experience in the sector and are able to demonstrate that they have the required competence to carry out local audits.

The experience of our firm is that the current requirement for a KAP to be able to demonstrate the attainment of at least two years' post qualification experience of local audit and/or of similar audit work in a supervisory role, which must have been obtained within the previous six years, and adequate Continuing Professional Development in the role, is not a key barrier for individuals seeking KAP status.

However, "Route 1" for KAPs proposes that the relevant experience must have been gained from a minimum of ten engagements within the last two years. Given the relatively large scale of the audits and the condensed timetable available to audit each sector (NHS and local government), members of our public sector team below KAP level tend to work on approximately four audited entities each year, therefore eight engagements over a two-year period. Increasing prospective KAPs' experience to ten or more engagements over a two-year period could be counter-productive to audit quality and would, in our view, be overly restrictive.

We believe that the key barrier for individuals achieving KAP status lies in the interpretation of what constitutes an 'appropriate qualification'. The appropriate qualification is commonly known as the audit qualification and ICAEW Local audit regulations define appropriate qualification as the following:

In relation to the audit of relevant authorities, an individual holds an appropriate qualification if the individual:

- *holds a qualification awarded by a recognised qualifying body under section 1219(1)a of the Act; (Companies Act AQ)*
- *holds a qualification awarded by a recognised qualifying body under section 1219 of the 2006 Act; or;*
- *was a member of an institute, ACCA or the Chartered Institute of Public Finance and Accountancy before 1 November 2015 or had started a course of study leading to a professional qualification in accountancy with one of those bodies before 1 November 2015 and became a member before 1 November 2021.*

Achievement of the Companies' Act 'audit qualification' requires individuals who are qualified as chartered accountants to complete 240 days of audit experience, of which 120 days are required to relate to statutory audits under the Companies Act.

For individuals who specialise in public sector audits (local audits and audits of foundation trusts and central government entities), it may be difficult to achieve 120 days of statutory audits. This is particularly relevant given the current shortages in the public sector audit resource market, as there is insufficient capacity in the system to enable auditors to reduce their time available to local audits while they pursue the required number of corporate days. It remains illogical to

require pursuit of corporate experience as a requirement to demonstrate ability to lead public sector audits.

In addition, the requirement for the 'audit qualification' is a barrier for public sector auditors with qualifications from other countries. We have previously fed back, for example, a promising pipeline of South African auditors who have developed UK public sector-specialist experience but who are effectively barred from progressing to KAP status because of the current arrangements.

For both corporate or public sector audits firms already apply risk and quality assessments, including licensing arrangements, and safeguards to ensure appropriate appointment of RIs. It is not clear why such arrangements could not be relied upon more for public sector engagements. In combination with addressing the "appropriate qualification" issues.

The current barriers exacerbate the national audit resource shortages and have notable potential to frustrate succession planning arrangements given alternative recruitment locations firms are more frequently utilising, thereby contributing to the delayed completion of local authority audits and posing a risk to audit quality.

Question 2

Do you agree that an experienced RI should have had a minimum of five years' experience in the role of RI? If not, what level of experience do you think is appropriate?

We do not believe that a minimum period should be set as we see no reason why it should be more difficult to attain KAP status for signing off local audits compared to the requirements for other specialist sectors, provided that the individuals are able to demonstrate their competence as RIs and obtain the appropriate level of training specific to local audits.

Our comments above relating to firms' existing arrangements relating to risk and quality assessments, including licensing arrangements, and safeguards for RIs also apply here.

Question 3

Do you support the proposal, set out at para 4.2 above, that experienced RIs should complete approved training to bridge the knowledge gap they may have from not holding a local audit qualification before they may apply for KAP status?

We strongly support the proposal that RIs should complete training to ensure that they have a sound understanding of the specific financial reporting frameworks in place for local audit entities, as well as knowledge about the laws and regulations applicable to these entities and the requirements of the National Audit Office's Code of Audit Practice.

However, more details of what "pre-approved training" and how such a status would be secured is necessary.

Question 4

Do you support the proposal at para 4.2 above, that there should be a specific requirement on an RSB to place an obligation on experienced RIs to have a minimum of their first two local audits hot file reviewed? Should these hot file reviews be undertaken by an independent third party or is it acceptable for the hot file reviews to be undertaken internally by their own firm? Should there be a subsequent requirement for cold file reviews?

We do not believe that requirements for hot reviews and cold reviews should be specified as they should follow the same principles applicable to corporate audits and other specialist sectors. As an extension to the points made above at Questions 1 and 2 relating to firms' arrangements, we already undertake sampled hot reviews of new RIs, with pre-set rating scores, to determine whether or not safeguard arrangements can be lifted.

A requirement for independent file reviews adds undue further restriction and may be difficult and costly to implement, as well as potentially adding a significant amount of time into the time it takes to attain KAP status.

Question 5

Do you support the proposal at para 4.2 above, that there should be a specific requirement on an RSB to place an obligation on experienced RIs to be subject to regular engagement quality control reviews undertaken as part of the firm's engagement management procedures for the duration of the period of the hot and cold file reviews?

We do not believe that requirements for engagement quality control review should be specified as they should follow the same principles applicable to corporate audits and other specialist sectors. Audit firms should retain flexibility to apply their own processes in determining whether EQCRs are required for an audit, which is likely to include, but not be limited to, consideration of the experience of the relevant RI in the sector.

Question 6

Do you support the proposal at para 4.3 above, that there should be a new tier of KAP which is restricted in the type of work for which responsibility may be taken?

We understand some of the logic behind the proposal for introducing a specific NHS KAP as the audits of some, but not all, NHS bodies are less complex than those of some, but not all, local authorities and, as noted at 3.6 of the consultation document, the audits of NHS trusts are similar in substance to the audits of foundation trusts, which do not require the RI to have KAP status.

However, we do not support the creation of this new tier as it adds additional complexity and we do not see how it will act as a springboard to full KAP status.

Question 7

Is the type of work which is currently accepted as providing relevant local audit experience too narrow in scope? If so, are there other types of work which challenge a potential KAP and provide the same level of experience of risk and complexity which are not currently accepted as providing relevant local audit experience?

The FRC's current guidance defines relevant local audit experience as 'other public sector audit work, for example audits of Foundation Trusts, Central Government, of other publicly funded bodies, or equivalent audit work elsewhere in the public sector, including in other parts of the UK.'

This suggests that the experience needs to be obtained in the UK. We believe this is too narrow as it excludes public sector audit experience in other countries. Our experience is that public sector auditors from other countries are competent to carry out local audits if they receive sufficient training to bridge any knowledge gaps.

Question 8

Do you have any additional suggestions of how the level of competence and experience required for the approval of KAPs might be addressed?

We welcome the intention behind the consultation to increase the routes available for individuals to obtain KAP status. However, as we have set out above, the proposed routes do not currently address what we consider to be one of the biggest barriers, namely the requirement for the Companies Act audit qualification.

This requirement presents an anomaly as it means that auditors who may have significant experience in carrying out local audits at a very senior level are not able to obtain KAP status without taking a break from public sector audits in order to achieve the required 120 days of statutory audit experience.

[REDACTED]

This is not an attractive position for dedicated public sector auditors who do not have any ability to progress their careers with RI status in their chosen sector and increases the risk of a loss of this valuable expertise from the current public sector audit market.

Addressing this critical issue will make a significant difference to the current public sector audit capacity issues.